

**BILL #** HB 2624

**TITLE:** telecommunications companies; property tax valuation

**SPONSOR:** Biggs

**STATUS:** As Introduced

**PREPARED BY:** Hans Olofsson

## **FISCAL ANALYSIS**

### **Description**

This bill would create a new personal property sub-classification for telecommunications companies that provide local exchange services and grant access to unbundled network elements to other carriers. Such companies are also referred to as incumbent local exchange carriers (ILECs). Moreover, the bill would reduce the minimum value (or “valuation floor”) of personal property owned by ILECs from 20% to 10% of original cost in tax year 2009. HB 2624 would further reduce the minimum value by 2.5% per year until tax year 2012 when it would be set at 2.5%.

### **Estimated Impact**

Based on estimates provided by representatives of the telecommunications industry, the bill would have a General Fund cost of up to between \$4.8 million in FY 2010 and \$8.3 million in FY 2013. The bill would reduce statewide net assessed valuation (NAV), which would result in an increase in the state’s K-12 education formula cost. However, the fiscal impact resulting from the NAV loss could be offset by reducing the cost of automatic school tax rate reductions under the state’s truth-in-taxation (TNT) provisions. The net General Fund cost if the TNT savings are incorporated would be between \$600,000 in FY 2010 and \$100,000 in FY 2013.

The cost estimates above are based on property data furnished by representatives of the telecommunications industry. The Department of Revenue (DOR) provided similar NAV estimates, which were reasonably close to those provided by the industry.

### **Analysis**

Based on data provided by the telecommunications industry, it is estimated that HB 2624 will result in a statewide NAV loss of \$(136) million in tax year 2009, \$(171) million in tax year 2010, \$(204) million in tax year 2011, and \$(235) million in tax year 2012.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage (between 37% and 40%) of residential property taxes through the Department of Education’s Homeowner’s Rebate program. By reducing NAV by \$(136) million in tax year 2009, the bill will result in a direct increase of the state share of K-12 funding by \$4.8 million in FY 2010. This impact grows to \$8.3 million by FY 2013. These cost estimates include the net impact of both Basic State Aid and the Homeowner’s Rebate.

The NAV reductions under HB 2624 will also generate savings in the cost of the state’s Truth in Taxation (TNT) program. TNT reduces the qualifying tax rate (QTR) and state equalization tax rate to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2010, the school tax rate is expected to be reduced by 9.2¢ under existing statutes. However, the lower NAV under HB 2624 would result in the tax rate reduction being 0.6¢ less than under current law, which constitutes a TNT saving of \$(4.2) million.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund will be about \$4.8 million in FY 2010, \$6.0 million in FY 2011, \$7.2 million in FY 2012, and \$8.3 million in FY 2013. However, if the QTR is adjusted to account for TNT, the bill would have a General Fund cost of \$600,000 in FY 2010, \$500,000 in FY 2011, \$300,000 in FY 2012, and \$100,000 in FY 2013.

(Continued)

**Local Government Impact**

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

2/14/07